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## Progress of American Tariff Bargaining

BY DAVID H. POPPER

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# Progress of American Tariff Bargaining

BY DAVID H. POPPER

*with the aid of the Research Staff of the Foreign Policy Association*

WHEN President Roosevelt assumed office in the spring of 1933 there was reason to believe that the Democratic party, as the bearer of the Wilsonian tradition, would embark on a course of international cooperation designed to combat the twin menace of depression and war. A cursory survey of the administration's foreign policy, however, has convinced many observers that its general drift has been in an opposite direction.<sup>1</sup> The very imminence of political and economic crisis appears to have rendered common action by sovereign states even more difficult than in the past. Rejection of the World Court protocols, revival of interest in the concept of neutrality, ominous developments in the Pacific, mammoth armament expenditures—all of these attest a growing nationalist trend in American foreign policy. At the same time dollar devaluation, the disheartening failure of the London Economic Conference and the administration's preoccupation with measures designed to achieve domestic recovery without great regard for this country's international position have signaled a similar tendency in the economic field.

Against this retreat from the post-war system of international cooperation one aspect of the administration's foreign policy—its reciprocal trade program—stands out prominently as an attempt to adapt liberal commercial practice to the stern exigencies of the present day. Our tariff bargaining efforts, guided by Secretary of State Cordell Hull, constitute recognition of the fact that changes in trade barriers are matters of international concern. By the conclusion of bilateral trade agreements, sponsors of the program hope, through mutual measures to facilitate the flow of goods, to revive American foreign commerce and combat the worldwide trend toward national self-containment and national poverty. They also desire to stabilize conditions of international trade in order to lessen discrimination and the uncertainty which is a

1. Cf. Drew Pearson and R. S. Allen, *The American Diplomatic Game* (Garden City, Doubleday Doran, 1935), Chap. V.

powerful deterrent to merchants.<sup>2</sup> The President's signature of the Reciprocal Trade Agreements Act on June 12, 1934 consequently appears to mark the first step on a road leading from unilateral tariff-making by Congress to the administrative determination of rates in agreement with other nations.<sup>3</sup> At the present moment, one year after the Act became law, negotiations have been initiated with eighteen nations to which, in 1934, the United States made 38 per cent of all its sales abroad and from which it took 46 per cent of its total imports. Agreements have been concluded with Cuba, Brazil, Belgium and Haiti, while negotiations are in various stages of progress with Canada, Colombia, Costa Rica, El Salvador, Finland, France and its colonies, Guatemala, Honduras, Italy, the Netherlands (including Netherland India, Surinam, and the Netherland West Indian Islands), Nicaragua, Spain, Sweden and Switzerland.

The new method of procedure was adopted largely as a result of the drastic decline in American foreign commerce during the last five years.<sup>4</sup> United States foreign trade fell more than two-thirds in value between 1929 and 1933. Exports were valued at \$1,675 million in 1933 as against \$5,241 million in 1929, while imports had slumped from \$4,399 million to \$1,450 million during the same period.<sup>5</sup> The significance of these figures for our domestic economy may be better understood

2. Cf. testimony of Secretary Hull, in "Reciprocal Trade Agreements," *Hearings before the Committee on Finance, United States Senate, 73d Congress, 2d session, April 26-May 1, 1934, on H.R. 8687, An Act to Amend the Tariff Act of 1930* (Washington, Government Printing Office, 1934), p. 4 ff.

3. *An Act to Amend the Tariff Act of 1930*, Public Law No. 316, 73d Congress (H.R. 8687), June 12, 1934. The United States has undertaken somewhat similar, although less flexible, measures in the past, without striking success. U. S. Tariff Commission, *Reciprocity and Commercial Treaties* (Washington, Government Printing Office, 1919).

4. Cf. speech of Senator Harrison, *Congressional Record*, May 17, 1934, p. 9247.

5. U. S. Department of Commerce, *Foreign Trade of the United States in 1933* (Washington, Government Printing Office, 1934), p. 2.

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when it is recalled that, although less than 10 per cent of the total production of the country is normally sold abroad,<sup>6</sup> the export market absorbed in 1933 from 25 to more than 70 per cent of our production of lard, dried and canned fruit, leaf tobacco, raw cotton, rosin, turpentine, lubricating oil, refined copper, and various classes of machinery, and over 15 per cent of the output of many other important industries.<sup>7</sup> Unless the trend toward economic nationalism evident in the commercial policies pursued by the United States and other countries can be checked, and the exchange of American farm and factory products abroad increased, this country must face the necessity of retiring forty to one hundred million acres of land from production and providing for the population affected.<sup>8</sup> Comparable readjustments will have to be made in efficient export industries.

#### EFFECTS OF AMERICAN COMMERCIAL POLICY

The fundamental inconsistency in American commercial policy, reduced to its simplest terms, has lain in the assumption that it is possible to increase the nation's wealth by selling abroad more than is bought from foreign countries. When the United States became a creditor nation as a result of the war, its continued excess exports were financed chiefly by loans abroad from 1923 to 1929, by liquidation of foreign short-term credits in the United States through 1933, and by a vast importation of gold during 1934.<sup>9</sup> These methods of settlement are essentially transitory in nature. If this country is to remain a creditor, utilizing foreign interest

and amortization payments for the benefit of its nationals, it must face the inescapable fact that in the last analysis international obligations can be met only by the transfer of goods and the performance of services. Concretely, this involves rectification of the United States' "favorable" merchandise trade balance through a decrease in exports or a relative increase in imports. Despite recent proposals for economic self-sufficiency, widely divergent schools of thought agree that modern capitalist economies either cannot or should not suffer the tremendous dislocation in agriculture and industry, the vast extension of governmental control, and the lowered standard of living inevitably linked with a policy directed toward the greatest possible restriction of international trade.<sup>10</sup> The alternative is to increase imports by lowering tariff walls. There is much available evidence to support the view that a wide reduction of rates on articles not extensively produced in this country is possible without serious repercussions on any sound domestic industry.<sup>11</sup> Only by a considerable increase in competitive imports, however, can a program designed to revive American foreign trade be successfully carried out.<sup>12</sup>

#### AMERICAN TARIFF BARGAINING

For the purpose of expanding American foreign markets, the Reciprocal Tariff Act authorizes the President, until June 12, 1937, to negotiate trade agreements altering United States tariffs by not more than 50 per cent. The terms of the Act provide, in part, as follows:

6. For annual estimates, cf. Department of Commerce, *Foreign Trade of the United States in 1933*, cited, pp. 9-14. In 1933 our exports are estimated to have accounted for only 6½ per cent of the total United States production of movable goods, with a slight increase in the 1934 ratio. U. S. Department of Commerce, *Summary of United States Trade with World, 1934*, Trade Information Bulletin, No. 822 (Washington, Government Printing Office, 1935), p. 2. Our foreign trade, in other words, has been more severely affected by the depression than our domestic market. Declines have been especially marked in agricultural exports, particularly foodstuffs. *Ibid.*, pp. 3, 12. Cf. U. S. Department of Agriculture, *Agriculture's Interest in America's World Trade* (Washington, Government Printing Office, 1935), pp. 7, 8.

7. Department of Commerce, *Foreign Trade of the United States in 1933*, cited, p. 12. For more detailed statistics on this point, cf. M. S. Stewart, "Tariff Issues Confronting the New Administration," *Foreign Policy Reports*, March 29, 1933, p. 17. It has been estimated that 2,500,000 persons were engaged exclusively in producing commodities for export in 1929, while export industries, including those branches of agriculture which normally export a large part of their product, employed at that time 7 million workers out of a total of less than 50 million persons gainfully employed in the United States. Cf. radio address of Secretary Wallace, printed in *Congressional Record*, April 1, 1935, p. 4999.

8. Henry A. Wallace, "America Must Choose," *World Affairs Pamphlets* (New York, Foreign Policy Association and World Peace Foundation), No. 3, February 1934, pp. 10-11.

9. Foreign loans and investments were increased by \$7,140 million between 1923 and 1929. Short-term credits due foreigners by the United States declined from over \$3 billion in 1929 to \$487 million at the end of 1933. Gold imports, valued at new parity, reached \$1,134 million in 1934. George N. Peek, *Letter to the President on International Credits for Foreign Trade and other Purposes, 1896-1933* (Washington, Government Printing Office, 1934); U. S. Department of Commerce, *The Balance of International Payments of the United States in 1934 (Preliminary)*, April 1935. Changes in the balance of international payments of the United States will be treated in a forthcoming issue of *Foreign Policy Reports*.

10. Lewis Corey, *The Decline of American Capitalism* (New York, Covici-Friede, 1934), pp. 483, 484; "International Economic Relations," *Report of the Commission of Inquiry into National Policy in International Economic Relations* (Minneapolis, University of Minnesota, 1934), pp. 15-18.

11. U. S. Tariff Commission, "Economic Analysis of Foreign Trade of the United States in Relation to the Tariff," *Report of the Tariff Commission in Response to Senate Resolution 325* (revised ed., Washington, Government Printing Office, 1934), part I.

12. "International Economic Relations," cited, pp. 73-79. Non-competitive imports from tropical regions are for the most part already permitted free entry. Over 95 per cent of the imports from Central America, Brazil, British Malaya and the Netherlands East Indies were on the free list in 1933, as compared with 39 per cent from Europe. U. S. Department of Commerce, *Foreign Commerce and Navigation of the United States, 1933* (Washington, Government Printing Office, 1934), p. 53.

Sec. 350 (a) For the purpose of expanding foreign markets for the products of the United States . . . the President, whenever he finds as a fact that any existing duties or other import restrictions of the United States or any foreign country are unduly burdening and restricting the foreign trade of the United States and that the purpose above declared will be promoted by the means hereinafter specified, is authorized from time to time—

(1) To enter into foreign trade agreements with foreign governments or instrumentalities thereof; and

(2) To proclaim such modifications of existing duties and other import restrictions, or such additional import restrictions, or such continuance, and for such minimum periods, of existing customs or excise treatment of any article covered by foreign trade agreements, as are required or appropriate to carry out any foreign trade agreement that the President has entered into hereunder. No proclamation shall be made increasing or decreasing by more than 50 per centum any existing rate of duty or transferring any article between the dutiable and free lists. The proclaimed duties and other import restrictions shall apply to articles the growth, produce, or manufacture of all foreign countries, whether imported directly, or indirectly: *Provided*, That the President may suspend the application to articles the growth, produce, or manufacture of any country because of its discriminatory treatment of American commerce or because of other acts or policies which in his opinion tend to defeat the purposes set forth in this section; and the proclaimed duties and other import restrictions shall be in effect from and after such time as is specified in the proclamation. The President may at any time terminate any such proclamation in whole or in part . . . .

(c) As used in this section, the term 'duties and other import restrictions' includes (1) rate and form of import duties and classification of articles, and (2) limitations, prohibitions, charges, and exactions other than duties, imposed on importation or imposed for the regulation of imports.

Sec. 2 . . . (b) Every foreign trade agreement concluded pursuant to this Act shall be subject to termination, upon due notice to the foreign government concerned, at the end of not more than three years from the date on which the agreement comes into force, and, if not then terminated, shall be subject to termination thereafter upon not more than six months' notice.

(c) The authority of the President to enter into foreign trade agreements under section 1 of this Act shall terminate on the expiration of three years from the date of the enactment of this Act . . . .

Sec. 4. Before any foreign trade agreement is concluded with any foreign government or instrumentality thereof under the provisions of this Act, reasonable public notice of the intention to negotiate an agreement with such government or instrumentality shall be given in order that any interested person may

have an opportunity to present his views to the President, or to such agency as the President may designate, under such rules and regulations as the President may prescribe; and before concluding such agreement the President shall seek information and advice with respect thereto from the United States Tariff Commission, the Departments of State, Agriculture, and Commerce and from such other sources as he may deem appropriate.<sup>13</sup>

The Act reflects the view that under present unsettled conditions more can be done to revive world trade by utilizing the enormous bargaining power of the world's greatest single market than by unilateral tariff reduction. In the struggle to retain as large as possible a share of a diminishing world market, virtually all the important commercial countries of the world have delegated the power to regulate foreign trade to the administrative branch of the government.<sup>14</sup> Supporters of the trade agreements program argue that the United States can meet these countries on equal terms and assure retention of its due share of world trade only by adopting similar methods of procedure.<sup>15</sup> There is undoubtedly a danger that other countries will "pad" rates and that the United States will surrender valuable concessions for their reduction. Skillful negotiations and constant insistence on real reduction of trade barriers, however, may minimize the effects of this practice.<sup>16</sup>

#### BARGAINING UNDER MOST-FAVORED-NATION CLAUSE

To broaden the channels of international trade, rather than merely divert it, the Reciprocal Tariff Act provides that concessions are to be generalized to all countries unless they discriminate against American commerce or otherwise tend to defeat the purposes of the Act. The United States is a party to twenty-nine treaties or executive agreements which embody the unconditional most-favored-nation clause, providing that we must

13. *An Act to Amend the Tariff Act of 1930*, cited.

14. In many cases tariff reductions may be made by the executive authorities without the necessity for legislative consent. Where such consent is necessary in countries with a parliamentary system of government, it is generally perfunctory. U. S. Tariff Commission, *Regulation of Tariffs in Foreign Countries by Administrative Action* (Washington, Government Printing Office, revised ed., 1934).

15. Testimony of Secretary Hull, "Reciprocal Trade Agreements," *Hearings before the Committee on Ways and Means*, U. S. House of Representatives, 73d Congress, 2d session (Washington, Government Printing Office, 1934), p. 5; testimony of Assistant Secretary of State Sayre, *ibid.*, pp. 361-365.

16. U. S. Tariff Commission, *Tariff Bargaining under Most-Favored-Nation Treaties*, Report No. 65, second series (Washington, Government Printing Office, 1933), pp. 9-10. Secretary Hull has condemned such anticipatory tariff raising and has stated that ". . . we shall eschew such practices and seek to negotiate with those who share our feelings in this regard." State Department, *Press Release*, October 18, 1934.

extend gratuitously all favors we grant to any nation. It would therefore be impossible to negotiate bargaining agreements on any other basis without delaying action until denunciation became effective in every case and without inevitably creating ill-feeling and encouraging others to discriminate against this country. While it might seem that the unconditional requirement practically negates the possibility of bilateral bargaining, detailed studies prove that this is not the case. European countries have pursued such a course for the past half century by restricting tariff negotiations to those articles of which the interested parties are the chief sources of supply. The advantages of mutual bargaining thus remain considerable, while at the same time glaring discrimination is avoided. To illustrate this point, a tabulation covering twenty-nine countries was recently made. It was found that on the average 71 per cent of the total dutiable imports from each country consisted of articles of which it was the chief source of supply for the United States.<sup>17</sup> Specific countries, moreover, often concentrate their productive efforts on certain grades or types of articles; by confining concessions to these, benefits can be closely limited.<sup>18</sup> If only a few nations supply imports of a certain commodity, it is possible by synchronizing negotiations to secure advantages from several in return for a single reduction of duty.<sup>19</sup>

Some authorities contend that this type of bargaining is a mere subterfuge which conceals actual abandonment of the spirit of non-discrimination. They assert, moreover, that the government's an-

nounced intention not to extend the benefits of concessions to nations which in future discriminate against the United States strikes a severe blow at the concept of equal treatment.<sup>19a</sup> In reply, however, it is maintained that the unconditional most-favored-nation principle guarantees legal equality of treatment, not exact economic equality which can never be achieved under any tariff policy. If, as is generally agreed in Washington, a more aggressive policy than mere unilateral tariff reduction is necessary to ease world-wide trade barriers, it is equally true that only energetic advocacy of the unconditional most-favored-nation principle can secure equality of treatment for American commerce. Should this government withhold the benefits of reduced duties from countries which practice discrimination against the United States, it is held that this is not mere retaliation but a reenforcement of the principle of equality of treatment. The purpose is to secure the adoption of unconditional most-favored-nation practice throughout the world. No country which practices a policy of discrimination can expect the benefits of a policy to which its own acts are diametrically opposed.<sup>20</sup>

## RECIPROCAL PACTS CONCLUDED

### TRADE AGREEMENT WITH CUBA

The Cuban agreement, the first to be concluded under the new policy, became effective on September 3, 1934. In view of the special geographic and historic relations existing between Cuba and the United States and long recognized by the world as a legitimate exception to the most-favored-nation principle,<sup>20a</sup> the concessions of this agreement are not extended to other nations.

Largely because of the loss of a considerable portion of the American sugar market to domestic and territorial producers sheltered by a tariff wall heightened several times, Cuba's internal economy, and consequently its trade with the United States, has suffered severely. United States imports of Cuban sugar declined in value from \$317,519,000

17. Tariff Commission, *Tariff Bargaining under Most-Favored-Nation Treaties*, cited, p. 9.

18. In the Belgian agreement, for example, concessions have been made on low-priced iron and steel products, while rates are left unchanged on higher grade products supplied chiefly by Sweden. Similarly, the duty reduction on Belgian lace is limited to high-priced pieces, in order not to encourage the importation of Chinese hand-made lace which competes with the domestic machine-made article. Both concessions are expected to be of considerable value to Belgium.

19. Cf. B. B. Wallace, "Tariff Bargaining," *Foreign Affairs*, July 1933.

19a. Commencing an aggressive drive for equal treatment to American commerce, President Roosevelt has warned that the tariff reductions granted to Belgium would be generalized under the following limitations:

1. To countries discriminating against American trade but now negotiating trade agreements with us (Canada, the Netherlands, Spain, and Switzerland), for six months only.
2. To other countries according less favorable treatment to American trade than to that of third countries (Denmark, Germany, Italy, Portugal), until the President gives notification that the United States is no longer bound by most-favored-nation treaties with these nations.
3. To 63 other nations which do not discriminate against us seriously, if at all, or which "have indicated an intention promptly to remove existing discriminations," as long as the United States is accorded equitable treatment.

State Department, *Press Release*, April 1, 1935.

20. State Department, *Press Release*, April 5, 1935. For a description of the different types of most-favored-nation clause, cf. U. S. Tariff Commission, *Reciprocity and Commercial Treaties* (Washington, Government Printing Office, 1919), p. 389 ff.

20a. Richard Riedl, "Exceptions to the Most-Favored Nation Treatment," *Report presented to the International Chamber of Commerce* (London, King, 1931). Cf. Reciprocal Trade Agreements Act, cited, Sec. 350 (b). The new agreement replaces the commercial convention concluded December 11, 1902, in which the United States granted Cuba a 20 per cent reduction on all dutiable imports, while Cuba granted preferentials ranging from 20 to 40 per cent. William H. Malloy, *Treaties, Conventions, International Acts, Protocols and Agreements between the United States of America and other Powers* (Washington, Government Printing Office, 1910), Vol. 1, p. 353.

in 1924 to \$37,897,000 in 1932. Unable to purchase goods formerly imported, Cuba resorted to a system of tariffs and taxes designed to minimize dependence on sugar and diversify domestic production. Cuban trade with the United States was drastically curtailed; imports from the United States fell from \$191,571,000 in 1924 to \$22,674,000 in 1933, while exports to this country, which were \$362,265,000 in 1924, stood at \$57,112,000 in 1933.<sup>21</sup>

For political as well as economic reasons the Roosevelt administration has moved to bring recovery to Cuba. Under the terms of the Jones-Costigan Act of May 9, 1934, the republic was granted a quota of 1,902,000 short tons for sugar imports which, while less than half the average amount exported to the United States between 1924 and 1929, constituted an increase of 300,000 tons over the 1933 figure. After the tariff reduction contained in the reciprocity agreement, the duty on raw sugar stood at nine-tenths of a cent a pound, as compared with a two-cent rate in 1930. Reduced tariffs under quota limitation are also granted for Cuban wrapper tobacco and cigars.<sup>22</sup> Other important concessions are lower duties on rum and pineapples, and seasonal reductions for certain fresh fruits and vegetables when these are not produced in sufficient quantity in the northern climate.<sup>23</sup>

In return for these concessions, Cuba agrees to facilitate the importation of American goods, either by reducing duties or increasing preferences; and on many products the existing rates are stabilized for the life of the agreement. Cuba further agrees to eliminate confusion with regard to the proper classification of certain items, while internal taxes are to be either reduced or maintained as at present on a number of important American products.<sup>24</sup> Except in certain special cases, no quantitative restriction on articles included in the treaty is permitted. Provision is made against the restrictive application of measures of exchange control.

Important among the specific concessions made by Cuba are the reductions on North American foodstuffs, imports of which, because of tariff increases since 1927 and reduced purchasing power, had shrunk to 9 per cent of their value in 1924. A

striking example is the reduction on the hog lard rate from \$9.18 per 100 pounds to \$2.73, with provision for further gradual reduction to \$1.45 and elimination of a consumption tax of \$1.00 per 100 pounds. On crude cottonseed, corn and soya bean oil the rate has been lowered from \$4.36 per 100 pounds to 88 cents and the preference increased to 35 per cent. Reduced duties or increased preferential advantages are also granted on American wheat flour, pork, potatoes, textiles, automobiles, machinery, and many other items.<sup>25</sup>

The trade agreement represents an attempt to revive United States-Cuban trade without seriously affecting the recent movement toward a diversified economy in Cuba. Cuba, moreover, may still conclude treaties with other nations for the reduction of tariffs on goods of which they are usually the chief sources of supply.<sup>26</sup> The island has been considerably aided by the agreement, largely because it has saved the sugar industry from absolute ruin.<sup>27</sup> An analysis of trade statistics for September-December 1934—the first four months of the agreement's operation—shows important advances in both exports and imports, with the movement of items not affected by concessions also expanding under the general impetus of improved trade. United States exports to Cuba amounted to \$17,614,000 or 2.3 per cent of total exports in September-December 1934, as compared with \$7,707,000 or 1.1 per cent in the corresponding period of the previous year; imports, meanwhile, jumped to \$36,623,000 or 6.7 per cent of the total, from a figure of \$21,020,000 or 3.8 per cent for the same months of 1933.<sup>28</sup>

#### THE BRAZILIAN AGREEMENT

A trade agreement with Brazil, the first to be concluded under the most-favored-nation principles of the Hull program, was signed in Washington on February 2, 1935.<sup>29</sup> Brazil, which is second only to Argentina as the best South American market for

21. Cuban statistics, *Commerce Yearbook*, 1926, Vol. II, p. 175; 1933 figures from State Department, *Press Release*, August 24, 1934.

22. Imports for consumption of dutiable tobacco and tobacco manufactures from Cuba are limited to 18 per cent of the total quantity of tobacco used in the manufacture of cigars in the United States during the previous calendar year. Sugar and tobacco schedules remain in effect only so long as domestic production control is continued.

23. "Reciprocal Trade Agreement between the United States of America and Cuba," *Executive Agreement Series*, No. 67 (Washington, Government Printing Office, 1934).

24. The United States undertakes a similar obligation.

25. "Reciprocal Trade Agreement between the United States of America and Cuba," cited.

26. *Problems of the New Cuba*, Report of the Commission on Cuban Affairs (New York, Foreign Policy Association, 1935), pp. 63-67. In March 1935 Cuba established a new three-column tariff schedule granting the benefits of lower rates to countries making large purchases in the republic. Under its provisions Japanese products pay the maximum duties, which are double the minimum charges. (*Commerce Reports*, March 30, April 13, 1935.)

27. *Diario de la Marina* (Havana), February 20, 21, 1935.

28. Department of Commerce, *Summary of United States Trade with World*, 1934, cited, p. 10. Part of the increase is doubtless due to the fulfillment of an accumulated and deferred demand created before the conclusion of the agreement, and part to an improvement in dollar values. For detailed figures, cf. U. S. Department of Commerce, *United States Trade with Cuba*, 1934, February 9, 1935 (press release).

the United States, has experienced a drastic decline since 1928 in its trade with this country. While Brazil's exports to the United States constitute 40 to 50 per cent of its total exports, and its imports from this country represent 20 to 30 per cent of the total, the corresponding figures for the United States are 1 to 2 per cent of total exports and 4 to 6 per cent of imports. Trade between the two nations is almost wholly non-competitive. United States exports to Brazil are made up of hundreds of industrial and agricultural articles, among the most important of which have been automobiles, petroleum products, machinery, iron and steel products, aircraft and wheat flour. Approximately 85 per cent of our imports from Brazil consist of coffee, purchases of which have scarcely varied from a yearly average of a billion pounds; but the value of this import has steadily declined from \$189,839,000 in 1928 to \$67,440,000 in 1933, despite the adoption by the Brazilian government of a restrictive program designed to maintain prices.<sup>30</sup>

Since over 96 per cent of imports from Brazil enter this country free of duty, the agreement could hardly be expected greatly to encourage Brazilian exports. The United States, however, undertakes to maintain on the free list 90.8 per cent of the imports from Brazil and to reduce duties on 2.5 per cent. Assurances are given that no duty will be levied on coffee and cocoa beans, and a 50 per cent reduction is granted on Brazil nuts, castor beans and manganese ore.<sup>31</sup>

Brazil, in return, reduces duties on twenty-eight tariff items and engages to maintain rates on thirteen, in all of which the United States is either the chief source of supply or in a position to compete favorably with other supplying countries. The commodities subject to reduction constituted 32.5 per cent of United States exports to Brazil in 1929 and 23.8 per cent in 1933, while rates were stabilized on about 7 per cent of North American exports. Among the important concessions are those on automobiles and accessories, various types of machinery, fresh fruits and oatmeal.<sup>32</sup>

The general provisions of the agreement are of interest, inasmuch as they present the first concrete evidence of the means by which the State Department intends to liberalize and foster international trade.<sup>33</sup> Unconditional most-favored-nation treat-

29. It will not become effective until after ratification by the Brazilian parliament. Running for two years, it may be terminated thereafter on six months' notice.

30. Cf. H. B. Davis, "Brazil's Political and Economic Problems," *Foreign Policy Reports*, March 13, 1935. The price declined again in the second half of 1934.

31. U. S. Department of Commerce, *Trade Agreement Between the United States and Brazil*, February 7, 1935.

32. U. S. Department of State, *Text of Trade Agreement between the United States and Brazil*, April 23, 1935.

ment is provided for customs duties, charges and formalities, subject to certain generally recognized exceptions such as those established in the Cuban agreement. Except for sanitary provisions and the like,<sup>34</sup> no quantitative restrictions (import quotas and embargoes) are to be imposed on articles on which concessions are made. In connection with measures for the control of production, market supply or prices of domestic articles, such as those envisaged in the NIRA and the AAA, however, quotas may be applied after prior consultation between the governments, with each country reserving the right to terminate the agreement if the quotas materially impair the concessions granted. Equality of treatment is required in connection with purchases by governmental monopolies and foreign exchange control.<sup>35</sup> In a supplementary exchange of notes Brazil undertakes to afford sufficient exchange to provide payment as due for future imports from the United States and to provide for the gradual liquidation of frozen commercial exchange balances in Brazil and the continued servicing of bonds held in the United States.<sup>36</sup> These provisions indicate that, while the State Department is in general opposed to all measures restricting the free flow of international trade and finance, it recognizes the necessity for emergency measures in the present abnormal period and is primarily concerned with preventing discrimination against the United States.

It has been intimated by some observers that the United States, as a result of the agreement, now occupies a favored position in Brazil somewhat analogous to the British situation in Argentina.<sup>37</sup>

33. The data which follow are taken from State Department, *Press Release*, February 2, 1935, *Trade Agreement between the United States and Brazil*, cited, and *Text of Trade Agreement*, cited.

34. In order to reduce to a minimum the injury to commerce resulting from sanitary regulations, either government may request a study of quarantine or similar measures by a committee of technical experts. Restrictions of this type have at times constituted a severe burden on American agricultural exports, in some cases perhaps without justification. Cf. 73d Congress, 1st session, Senate Document No. 70, *World Trade Barriers in Relation to American Agriculture* (Washington, Government Printing Office, 1933), pp. 63, 64, and Part III.

35. Government monopolies, by diverting their purchases for political or other motives, are in a position completely to nullify the most-favored-nation principle. Similarly, by controlling the allocation of foreign exchange to importers, one nation may be favored over others in trade. (Cf. case of Argentina, *New York Times*, February 18, 1935.)

36. Falling coffee prices and the contraction of the international capital market have forced Brazil, like many other debtor countries exporting a small number of staple raw materials, to establish stringent measures of control over foreign exchange and remittances abroad. Cf. Lawrence Smith, "The Suspension of the Gold Standard in Raw Material Exporting Countries," *American Economic Review*, September 1934, p. 430.

37. Cf. *The Economist* (London), February 9, 1935, p. 304.

The non-discriminatory nature of the customs concessions, however, viewed in conjunction with the partial relaxation of official control of the foreign exchange market and the successful conclusion of arrangements for thawing British frozen credits, lends little support to this view.<sup>38</sup> According to a more serious criticism, "the United States . . . has utilized its bargaining power to break down the protective barriers of a weaker country."<sup>39</sup> It is undoubtedly true that United States exports will be increased to a far greater extent than those of Brazil, thereby tending further to unbalance the flow of American trade. Nevertheless, when it is remembered that United States exports to Brazil are not over 2 per cent of total exports, and that our sales to South America for 1933 were 74.5 per cent less than the 1926-30 average, while exports as a whole declined only 64.9 per cent, the relatively greater importance of committing the two nations to a policy of trade revival and non-discrimination is evident. Furthermore, as has been stated, the nature of the trade makes wide duty reductions by the United States impossible.

For its part the Brazilian government has much to gain by establishing itself as a proponent of more liberal practices in international commerce. It can then consistently oppose the burdensome duties levied on coffee in most countries, as well as the pressure from some European nations for trade on a strict bilateral basis bound to curtail Brazilian exports. Using the reciprocal policy of the United States as a model, Brazil is now seeking trade treaties with a number of countries, including Italy, Great Britain, Germany and Spain.<sup>40</sup>

The problem of generalizing tariff concessions under the Brazilian agreement is not expected to be of importance except in the case of manganese, on which the duty is reduced from one cent a pound manganese content to half a cent.<sup>41</sup> When lobbyists protested the duty reduction, Secretary Hull issued a statement in which he cited official figures to prove that, despite a duty which was the equivalent of 110 per cent ad valorem in 1933, domestic producers furnished less than 10 per cent of our needs, employed only a few hundred workers, and burdened American consumers with import duties equal to \$98 for every ton of manganese domestically mined. In return for the tariff

reduction, he stressed, foreign countries would reduce duties and thus create employment vastly more profitable for the United States.<sup>42</sup> This did not prevent the American Manganese Producers Association from charging that the reduction in duty was crippling an industry vital to the national defense.<sup>43</sup> The fact is, however, that high grade deposits in this country are so limited that only careful conservation will assure an adequate domestic supply after stocks in storage are exhausted.<sup>44</sup>

#### FIRST EUROPEAN AGREEMENT: BELGIUM

The first trade agreement to be concluded with a European nation under the new program was signed in Washington on February 27, 1935. Despite its small size and population, Belgium ranked as the United States' tenth best customer in 1934, taking \$49,814,000 of American goods and supplying imports totaling \$26,174,000. The relative importance of their mutual trade to the two countries is indicated by the fact that the United States has furnished about 10 per cent of Belgium's imports in recent years, taking 11 per cent of Belgian exports in 1926 and only 5 per cent in 1930-1933; at the same time, for the United States, trade with Belgium is only about 2 per cent of the total.<sup>45</sup> About 70 per cent of the imports from Belgium are dutiable, half consisting of diamonds and linen fabrics. Belgian imports of raw cotton and wheat, which pay no duty, accounted for roughly 30 per cent of its purchases from this country in 1933.

Concessions are made by Belgium on over one-third of its imports from this country.<sup>46</sup> Half the concessions are made on industrial products, over one-fourth on agricultural commodities, and the remainder on articles such as pilchards, cigarettes, lumber and linseed oil cake, which might be classified in either category. An examination of trade statistics discloses the fact that the agreement includes every important dutiable item imported

42. State Department, *Press Release*, February 9, 1935.

43. *New York Times*, February 24, 1935.

44. Brooks Emeny, *The Strategy of Raw Materials: A Study of America in Peace and War* (New York, Macmillan, 1934), pp. 49-52.

45. U. S. Tariff Commission, *An Analysis of the Trade between Belgium and the United States*, March 1934. In 1929 United States exports to Belgium were \$114,855,000, and imports from that country, \$74,048,000.

46. Based on 1933 Belgian statistics. By value of trade affected, over 60 per cent of the concessions represent duty reductions; 23 per cent, binding of present duty rates; 9 per cent, suppression of import quota restrictions and reduction of license tax; 5.65 per cent, increase of United States quota allotments; and the remainder, binding of quotas and duties. U. S. Department of Commerce, *An Analysis of the Trade Agreement between the United States and Belgium*, March 1, 1935.

38. Cf. Davis, "Brazil's Political and Economic Problems," cited; *New York Times*, March 29, 1935.

39. *The Nation* (New York), February 13, 1935, p. 169.

40. Council on Inter-American Relations, *Bulletin No. 37*, March 22, 1935, p. 2; *New York Times*, February 10, 1935.

41. Brazil has generally been second to the Soviet Union as a source of supply for the United States. Cf. U. S. Tariff Commission, *Digest of Trade Data with Respect to Products on Which Concessions Were Granted by the United States in the United States-Brazilian Trade Agreement*, May 1935, p. 24.

from the United States into Belgium with the exception of gasoline and lubricating oil. In the case of nine important American products subjected to quota limitation in Belgium, moreover, allotments are increased on six, two are bound, and one is suppressed.

#### CHIEF BELGIAN CONCESSIONS TO U. S.

Commodity	Import value 1933 (Belgian statistics)	Reduction
Automobile parts	\$4,963,670	64-80% & bound
Wood, sawn	1,993,057	15% & bound
Unstemmed leaf tobacco	1,776,682	Bound
Linseed oil cake	1,497,335	Bound free*
Passenger automobiles	954,569	15%
Lard, natural	756,275	Bound free**
Apples, fresh	639,495	Bound
Radio apparatus, etc.	504,851	15% & 50%
Typewriters, etc.	338,238	Various
Prunes	279,347	25%
Rice	246,089	Bound free
Pilchards, canned	230,623	28%
Oatmeal	146,565	28%

\*Quota restriction removed; license tax reduced 25 per cent.

\*\*Quota equivalent to average of imports 1929-1933 granted.  
Source: *Analysis of the Trade Agreement between the United States and Belgium*, cited.

The definite adoption of the five-year quota base (1929-1933) for pork and lard is a concession which insures equality of treatment for United States exports as well as security in a market formerly subject to drastic curtailment by administrative authorities without notice. On the new basis, the United States acquires a quota of 3,207,000 kilo-

grams for lard, while the meat quota is increased from 25,000 kilograms to 1,044,000 kilograms. Other concessions important to American agriculture are reductions of 50 per cent for grapefruit, dried peaches and fresh pears; 27.5 to 42 per cent for dried apricots; 27.5 per cent for all canned fruit; 33 per cent for dried apples; and an increase in the cornstarch quota. To avoid uncertainty and secure the market for goods now admitted free or on payment of very low duties, rates have been stabilized on entrails, gums and rosins, acetone, aniline dyes, carpentry work, and certain leathers. Quotas on silk stockings and women's dresses have been increased.

The United States, for its part, has made an average reduction of 24 per cent in duty on forty-eight articles out of a much larger number at first considered. Subtracting from the total dutiable imports from Belgium in 1933 (\$16,977,000) the large purchases of diamonds cut but not set (\$5,887,000) on which a scarcely protective duty of 10 per cent is levied, it is found that rates are lowered on almost 45 per cent of the remainder. In addition, duties on six products are bound. Belgium is clearly the chief source of supply of United States imports on most of the items involved in the agreement; in the few cases where this is not so, the concession is of such great importance to the national economy of Belgium that the United States was able to gain large counter-concessions by including it in this agreement. Important concessions made by the United States are as follows:

#### PRINCIPAL CONCESSIONS GRANTED TO BELGIUM BY THE U. S.

Commodity	Value of imports, 1933 (U. S. Statistics)	Equivalent ad valorem duty, 1933	Reduction
Linen fabrics	\$1,494,635	40%	25%
Paddings or interlinings of flax or hemp	856,129	55%	27%
Certain iron and steel products	634,201	Various	24%*
Imitation oriental rugs	404,141	35%	43%**
Dead or creosote oil	330,627	Free	Bound free
Flax, not hackled	227,141	12.5%	33%
Motion picture film	203,223	59.8% & 25%	50%
Cement	111,707	27.5%	25%
Plate glass	104,891	87%	33-1/3%
Glass sand	58,180	81.3%	50%
Certain hand-made laces	3,280	90%	50% & 33-1/3%

\*Weighted average on 1933 imports.

\*\*Import fee of 23 cents a square yard, imposed under section 3 (c) of NIRA, and equivalent to 28 per cent ad valorem, remains.

Source: U. S. Tariff Commission, *Digest of Trade Data with Respect to Products on Which Concessions Were Granted by the United States in the United States-Belgo-Luxemburg Trade Agreement*, March 1935.

Less important concessions are made on certain chemical products, various types of glass, preserved peas, waterproof cloth, artists' canvas, photographic paper, prayer books, photographic films, and hot-house grapes.<sup>47</sup>

Both the strength and weakness of well-administered bargaining technique are revealed in the con-

47. For the iron and steel products on which duties are reduced, Germany is the second source of supply; for the textiles, the United Kingdom; for cement, Denmark; and for plate glass, Czechoslovakia.

cessions made to Belgium. By laborious and exhaustive study on the part of executive officers, it was possible to make duty reductions which do not appear to violate the President's pledge that "... no sound and important American interest will be injuriously disturbed."<sup>48</sup> Of the forty-eight reductions, more than one-fifth relate to articles or types or grades of products of which, despite relatively high duties in many cases, domestic production is very small or non-existent. Some of the products in this classification are used by manufacturers as raw materials. It is estimated, moreover, that in the case of more than half the items on which reductions are made, imports probably will not supply more than 2 or 3 per cent of domestic consumption. Over one-third of the concessions have been made on articles on which the rate of duty was equivalent to from 50 to more than 150 per cent ad valorem. Finally, on eighteen of the products on which reductions are granted, exports from the United States are greater than imports, testifying to the comparatively strong competitive position of domestic producers.<sup>49</sup>

On the other hand, the limitation arising from the bargaining psychology itself—the tendency to yield little and win much, when the basic need is for a relative expansion of imports—was not completely absent from the Belgian agreement. Much significance has been attached, for example, to reductions in the duties on certain articles used in the construction industry and others of which the revival has been retarded because of the inflexible cost of materials. While it is true that building material prices have fallen less than those of most other commodities, especially consumers' goods,<sup>50</sup> it is doubtful whether the 25 per cent reduction of the 1930 tariff duties stipulated in the agreement will so stimulate foreign competition as to effect a considerable reduction of domestic prices. The high cost of transportation of these bulky products limits importation to certain seaboard areas. In 1929, when cement was imported in the United States free of duty, imports were only 2 per cent of the

domestic production in coastal districts. For iron and steel products, the rates are little if at all below those of 1929; imports have always been below 5 per cent of domestic production, in many cases far below, in recent years. In several neutral markets, the domestic plate glass industry competes favorably with Belgian producers.

The Belgian agreement, which takes the form of an exchange of notes, went into effect on May 1, 1935. When the belga was devaluated 28 per cent on April 1, 1935,<sup>51</sup> the United States indicated it would take no action to alter the agreement, despite provision for negotiations or termination of the agreement in case of substantial variations in exchange rates. In justification of its position, the State Department cited its caution with regard to the extent of duty reductions and the Belgian government's establishment of an export license system to prevent undue price disturbances in foreign markets.<sup>52</sup>

#### HAITI<sup>53</sup>

Although only a minor Latin American market for the United States, Haiti obtained from this country 70 per cent of its total imports in 1928-1929 and, due to increased competition from other sources, 48 per cent in 1933-1934.<sup>54</sup> Haiti's best customer is France, which purchases most of the principal crop, coffee, and takes over half the Negro republic's total exports as compared with 8 or 9 per cent for the United States. United States sales to Haiti are made up of a wide variety of manufactured products and foodstuffs, while imports consist chiefly of a few tropical commodities.

The general provisions of the agreement provide for non-discrimination with respect to quotas and foreign exchange control. The system of valuation for the purpose of levying ad valorem duties is not to be altered to the disadvantage of importers.<sup>55</sup>

Haiti reduces or binds duties on approximately 18 per cent of its imports from this country. Duties are lowered on goat and kid skins, sewing ma-

48. Message to Congress, *Congressional Record*, March 2, 1934, p. 3644.

49. State Department, *Press Release*, February 27, 1935.

50. In the spring of 1933, when the price index touched its lowest ebb, cement prices had dropped 18 per cent and iron and steel prices 20 per cent, below the 1929 level, as compared with declines of 45 per cent for textiles, 49 per cent for food products and 63 per cent for agricultural commodities. Cf. Gardner C. Means, *N.R.A., A.A.A., and the Making of Industrial Policy*, printed as U. S. Senate Document No. 13, 74th Congress, 1st session (Washington, Government Printing Office, 1935), p. 8. Although narrowed, the disparity still existed in December 1934, when building material prices were approximately 10 per cent below the 1929 levels while farm prices were more than 30 per cent below. H. Gordon Hayes, "Wholesale Commodity Prices 1929-34," *Survey of Current Business*, February 1935, p. 19.

51. *New York Times*, April 1, 1935.

52. *New York Herald Tribune*, April 15, 1935.

53. United States trade with Haiti (in thousands of dollars):

Year	Exports to Haiti	Imports from Haiti
1925	13,711	2,060
1929	8,790	1,445
1932	4,005	611
1934	3,362	1,223

Source: State Department, *Press Release*, March 27, 1935.

54. Figures are for Haitian fiscal year. State Department, *Press Release*, March 27, 1935.

55. Arbitrary or unfair methods of determining valuation for this purpose have been a source of friction in certain countries. Canadian regulations on this subject have led to protests by American exporters. Cf. speech of J. L. Ralston, *Montreal Daily Star*, March 27, 1935.

chines, meat, certain fruits, seed potatoes and dairy products, while rates are bound against increase on glass, certain iron and steel products, electrical apparatus, automobiles and accessories, and cigarettes. In addition, Haiti agrees to accord duty reductions on lard, radios and automobile tires during those fiscal years when the Haitian budget is promulgated in the amount of 40,000,000 gourdes or more.<sup>56</sup>

Since 89 per cent of Haitian imports into the United States were on the free list in 1933, the principal American concessions consist of the guarantee of free entry for the period of the agreement on commodities constituting over half the total imports from Haiti. These are bananas, plantains, cacao beans, coffee, logwood and sisal fiber. The duty on rum is reduced 50 per cent, and rates are also lowered on pineapples, guavas, and mango and guava pastes.<sup>57</sup>

### CONFLICTS OF POLICY IN WASHINGTON

Opposition to the trade agreements program has arisen from several sources which disagree as to the proper scope and nature of regulation of United States foreign trade. Perhaps the most powerful resistance has come from protected industries fearing the loss of their domestic market.<sup>58</sup> Because they were encouraged to invest in new fields of production by tariffs and other government aid, these interests are prone to denounce tariff reduction as confiscatory. When the machinery for negotiating trade agreements was set up, pressure groups representing these industries in Washington adapted their technique accordingly. In addition to protests in Congress, as well as before the Committee on Reciprocity Information,<sup>59</sup> tariff lobbies have subjected the

56. The gourde is quoted at approximately 20 cents. The customs is an important source of Haitian revenue.

57. U. S. Department of Commerce, *Trade Agreement between the United States and Haiti: Exchanges, Reciprocal Concessions and Assurances*, March 28, 1935.

58. The only major industries directly affected by agreements concluded at present are steel, glass and cement. As stated above, the reductions are not likely to have unduly serious effects, p. 66. Losses of this type should often be more than offset by gains in the more productive export industries. Increased domestic demand for plate glass, for example, should result from additional automobile exports.

59. This is an interdepartmental organization which conducts the hearings required by law and transmits the information received to administrative officials sheltered from direct pressure. For a summary of the administrative machinery set up under the program, cf. *Eighteenth Annual Report of the United States Tariff Commission, 1934* (Washington, Government Printing Office, 1935), pp. 10-13; *Congressional Record*, February 1, 1935, p. 1425.

60. Cf. Secretary Hull's statement on manganese, cited. A description of some of these groups is given in the *Baltimore Sun*, February 15, 1935. In some cases, notably those of the California wine and American manganese lobbies, the anti-cipatory protest was carried directly to the President. *Ibid.*

State Department itself to pressure.<sup>60</sup> At the same time the expected crystallization of the hitherto amorphous export interests has not yet developed sufficiently to provide a broad basis of public support for the program.<sup>61</sup>

American tariff bargaining as now conducted is also sharply criticized within administration circles. Thus, George N. Peek, special adviser to the President on foreign trade and president of the Export-Import Banks, advocates the adoption of a more "realistic" policy to preserve American competition in world markets. Believing that the wide use of quotas, exchange controls and compensation agreements has invalidated traditional ideas of international trade, he would preserve the United States' share of world commerce by granting broad powers to a unified foreign trade authority. This authority would keep records of the United States' economic relations with each individual country, encourage the export of agricultural products and the importation of raw materials and articles not competitive with domestic production, and settle exchange problems by governmental action where necessary.<sup>62</sup> Mr. Peek also favors the conditional most-favored-nation practice, under which third nations would receive the benefits of concessions made in trade agreements only as they in turn accorded concessions deemed equivalent. Direct bilateral barter is advocated as a means of trade revival.<sup>63</sup>

Admitting that government-supported foreign trade on a strict *quid pro quo* basis is so widespread that it cannot be disregarded, the dominant group in Washington holds that more is to be gained by combating this condition than by yielding to it. Although sometimes helpful in relieving strained foreign exchange situations, clearing and compensation agreements are said to promote discrimination, complicate the technique of foreign commerce and multiply administrative difficulties.<sup>64</sup> Their general

61. This point is illustrated by the furor aroused in Maine over unfounded rumors that the administration had decided to reduce the duty on potatoes in the proposed agreement with Canada. According to the State Department, "tariff lobbyists," by "high-pressure lobbying methods," have attempted to hamper the whole program, although Maine producers had been considerably aided by increased exports of potatoes to Cuba. State Department, *Press Release*, April 17, 1935.

62. Address of G. N. Peek before the National Foreign Trade Convention: Office of the Special Adviser to the President on Foreign Trade, *Press Release No. 7*, November 2, 1934.

63. Testimony before Senate Agricultural Committee. "Causes of the Loss of Export Trade and the Means of Recovery," *Hearings before the Committee on Agriculture and Forestry*, U. S. Senate, 74th Congress, 1st session (Washington, Government Printing Office, 1935), pp. 180-187. For discussion of Mr. Peek's abortive attempt to trade cotton for German goods, cf. J. C. deWilde, "The AAA and Exports of the South," *Foreign Policy Reports*, April 24, 1935.

64. For a summary of their effects, cf. U. S. Department of Commerce, "Some Aspects of Exchange Clearing and Com-

effect is to readjust trade on a lower and less economic level. The great volume of American triangular commerce—estimated at over 30 per cent of the total—would be jeopardized by an extension of the tendency to balance trade between each individual pair of nations.<sup>65</sup> A more direct control of foreign trade, furthermore, would doubtless involve a considerable degree of new governmental intervention in domestic economic life.<sup>66</sup> Hence, rather than join the movement toward a more closely controlled economy at an allegedly lower standard of living, the United States has chosen to bend its efforts toward a removal of trade restrictions. The policy championed by Secretary Hull rejects bilateral bargaining on a conditional basis as conducive to unending negotiation, retaliatory measures, and restriction of the scope of trade agreements in order to reserve possible concessions for future bargaining. For the dual purpose of increasing the flow of commerce and combating discrimination, the Hull policy would withhold the new conventional rates from nations which discriminate against Americans.<sup>67</sup> It would extend the principle of equality of treatment to import quotas and exchange controls by providing that these be administered on the basis of trade during a previous representative period.<sup>68</sup>

Domestic recovery measures aimed at the support of agricultural and industrial interests, some of which would be injured by tariff reduction, constitute a third force limiting the effectiveness of the trade program. Under section 3(e) of the National Industrial Recovery Act, for example, the President may restrict imports by fees, quotas, or import licenses if substantial or increasing imports endanger the maintenance of any code.<sup>69</sup> Imports of agricultural commodities on which processing taxes are levied are subject to an equal "compensating tax."<sup>70</sup>

These statutory measures illustrate the inherent conflict between the price-raising and production restrictions which are a common feature of most reparation agreements," *Special Circular No. 406*, Bureau of Foreign and Domestic Commerce, Finance Division, April 8, 1935.

65. Estimate from "International Economic Relations," cited, p. 151. Cf. address of Francis B. Sayre, "American Commercial Policy," State Department, *Press Release*, December 21, 1934.

66. This is graphically illustrated in the suggestion of Chester Davis, AAA administrator, that foreigners holding dollar exchange be required to buy more cotton and less automobiles from this country. *New York Herald Tribune*, April 25, 1935.

67. Cf. p. 61.

68. Government monopolies are to "accord American suppliers a fair and equitable share of the market as nearly as may be determined by considerations of price, quality, etc., such as would influence a private commercial enterprise." State Department, *Press Release*, April 1, 5, 1935. These principles are embodied in the provisional commercial agreement by exchange of notes between the United States and Czechoslovakia, signed on March 29, 1935.

cent governmental economic controls, and the aim of tariff reduction: benefits to consumers through greater productive efficiency and lower costs. They illustrate, too, the close interrelationship between domestic and foreign economic policy.

Should the AAA and the NRA continue in somewhat their present form, a possible compromise between the demands of a stabilized domestic economy and the drive toward lower prices through freer international competition might be worked out by the adoption of a quota system designed to limit the future expansion of established industries deemed uneconomic by the central planning authority. To achieve this purpose, it has been suggested that specified quantities of certain commodities be admitted at a lower, conventional rate of duty, while any excess be charged the usual tariff rates.<sup>71</sup> By this method the more inefficient units in an industry might be discouraged. Ultimately, commercial agreements might become the instrumentalities for a planned economy in the international sphere similar to the controlled capitalism existing within so many nations.

Cumbersome, slow and inflexible as they are, trade agreements may prove to be the most practicable method of freeing the clogged channels of international trade. Their conclusion does not obviate the possibility of unilateral tariff reduction, should it ever become politically feasible. Meanwhile, with a partial domestic recovery easing the economic strain on many nations, they may be used to moderate restrictive trade controls which were imposed as a response to wholly abnormal commercial conditions.<sup>72</sup> As measures of international agreement, moreover, they may do much to bolster the threatened structure of international cooperation, political and economic, as a whole.

69. Public Law No. 67, 73rd Congress, June 16, 1933. On December 1, 1934 the President had requested the Tariff Commission to conduct investigations in ten distinct cases arising under this section. These dealt with such articles as pencils, quicksilver, wool-felt hats, shingles, cotton rugs, matches and pottery. Investigations had been completed in seven cases. To avoid drastic restrictions, Japanese exporters of pencils and cotton rugs had voluntarily agreed to limit their exports to fixed annual quotas. Cf. *Eighteenth Annual Report of U. S. Tariff Commission*, cited, pp. 42-53. A similar arrangement has been suggested in connection with the current investigation of imports of bleached cotton cloth.

70. Agricultural Adjustment Act, section 15 (e), printed in U. S. Department of Agriculture, "Agricultural Adjustment," *A Report of Administration of the Agricultural Adjustment Act May 1933 to February 1934* (Washington, Government Printing Office, 1934), p. 367.

71. Such an arrangement is foreshadowed in the Brazilian agreement, cited, Article 2.

72. Cf. League of Nations, Economic Committee, *Report to the Council on the Work of the Forty-First Session*, "Evolution of Commercial Policy Since the Economic Crisis," Appendix 2 (II, Economic and Financial 1934 I.B.I.), Geneva, 1934, p. 16.